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# **Attracting new customers to loyalty programs: the effectiveness of monetary versus non-monetary loyalty programs**

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## **ABSTRACT**

What type of reward attracts customers to loyalty programs? Given the increasing importance of loyalty programs this question matters. Six sequential studies investigated whether monetary rewards universally attract people more than non-monetary rewards. Results suggest that monetary rewards elicit a very robust attractiveness premium both on the level of individual rewards as well as on the level of entire reward programs. Across different industries the more monetary loyalty program was consistently perceived as more attractive and it was more likely to inspire intentions to join the program. Even in light of variations in consumption goals (hedonic versus utilitarian) the effect persisted. The effect is not only consistent it is also non-negligible with medium effect sizes emerging in most settings. We discuss ensuing variations in effect sizes and conclude that monetarism holds a pervasive temptation for consumers that managers cannot ignore.

**Keywords:** loyalty program; loyalty scheme; monetary reward; non-monetary reward; consumption goals.

## 1. Introduction

Strong reciprocal relations between a company and its customers are important for both business success (Kumar and Shah, 2004; Rust *et al.*, 2010) and customer satisfaction (Bloemer and Kasper, 1995). Customer loyalty programs are one of the most important and widespread tools for managing these relations (Meyer-Waarden, 2008) and for gaining potentially precious knowledge about one's customers (Kumar and Shah, 2004; Berman, 2006).

In most service sectors, loyalty programs have already become the norm. Still, the loyalty management market is expected to grow at more than 20% annually over the next years (Pune, 2015). The current and prospective abundance of loyalty programs (for example, it is estimated that an average house-hold in US owns 29 loyalty cards; Colloquy, 2015) poses a fundamental challenge: attracting new members to a program. An increasing number of programs compete for customers who are growing more and more skeptical about loyalty programs in general (Colloquy, 2014; WorldPay, 2013). Consumer surveys point to the relevance of loyalty rewards as a key to overcoming this skepticism (Colloquy, 2014). Consequently, the design of a program and its rewards has been of primary importance (Keh and Lee, 2006; Yi and Jeon, 2003).

This paper focuses on one major characteristic of programs and rewards: their monetarism (Furinto *et al.*, 2009), namely the extent to which rewards are of a monetary or money-like nature. Monetary incentives were shown to be a powerful motivator in different contexts (e.g. Hammermann and Mohnen, 2014; Vohs *et al.*, 2006; Pessiglione *et al.*, 2007) including consumption (Lea and Webley, 2006). Yet, in the context of loyalty programs there are voices suggesting that—given that loyalty programs are about relationships—non-monetary rewards may be as successful (Johnson, 1999; White, 2003). What are prospective members attracted by the most? The primary aim of this paper is to systematically investigate the influence

of reward monetarism among non-members. Specifically, we test what happens if prospective members are offered reward bundles that are composed of individual rewards that differ in terms of monetarism. By focusing on monetarism the paper provides a simple lens that helps judging whether a reward program is likely to attract members. By focusing on non-members the paper adds to a literature that has tended to focus on existing members (e.g., Suh and Yi, 2012; Eggert *et al.*, 2015; Keh and Lee, 2006) which may behave systematically different from non-members (Leenheer *et al.*, 2007).

Prior literature suggests that any relationship identified may be malleable to the specific situation a customer is in. Therefore, another aim and contribution of this paper is to inquire into potential boundary conditions to the effectiveness of loyalty program monetarism in attracting customers. In particular, we ask whether the type of consumption goal (hedonic versus utilitarian) a person pursues can moderate the effect of specific rewards on consumer reactions (for evidence of such moderation in similar contexts see e.g., Chandon *et al.*, 2000; Büttner *et al.*, 2015).

A pilot study and five scenario-based experiments critically evaluate the relation between reward monetarism and attractiveness. The studies were situated in different contexts (hospitality and beauty) and controlled for several potential confounds (monetary reward value, perceived program uniqueness, and involvement). Results across studies show a consistent and stable advantage for monetary rewards. Remarkably and despite some variation in effect sizes, this advantage appears to be largely insensitive to salient consumption goals. These insights help to foster our understanding of what appeals to prospective customers and of the limits of consumption goals. In addition, this paper adds to debates on what it is that makes monetarism so special.

## 2. Loyalty reward categorization: The case of reward monetarism

A major reason for the success of any loyalty program lies in the aspect that is the most salient to customers, namely the rewards they receive (Keh and Lee, 2006; Leenheer *et al.*, 2007). A common issue with existing programs is that customers do not always sufficiently appreciate these rewards (Mimouni and Volle, 2003; WorldPay, 2013). This results in reluctance to join new loyalty programs or, in the case of existing members, dissatisfaction with the loyalty program and the sponsoring organization in general (Suh and Yi, 2012; Rothschild and Gaidis, 1981). The crucial question asks which type of reward is able to attract customers.

The literature holds several examples of loyalty reward classifications. For example, rewards were categorized in terms of their relation to the brand or product (direct versus indirect), the timing of redemption (immediate versus delayed; Yi and Jeon, 2003; Dowling and Uncles, 1997), or their level of necessity (luxury versus necessity; Kivetz and Simonson, 2002). This paper focuses on the extent to which loyalty rewards are of a monetary or material nature. Although this type of classification has been used before, there is no terminological consistency. For example, while referring to roughly the same reward categories, Furinto *et al.* (2009) distinguish between monetary and special treatment rewards, Roehm *et al.* (2002) refer to tangible versus intangible rewards, and Lacey and Senath (2006) differentiate between soft and hard rewards. Some authors also use these terms interchangeably (Meyer-Waarden and Benavent, 2001). Here we use the terms monetary and non-monetary rewards because they reflect the primary value a reward provides to a customer.

We refer to reward monetarism as the degree to which a reward resembles money. Main characteristics of money are that it is fungible and that it is often used instrumentally (Lea and

Webley, 2006; Vohs *et al.*, 2006). Money tends to “serve as means to an end” (Lea and Webley, 2006, p. 164). More monetary rewards, such as discounts or coupons but also some material rewards that are valued for their material worth, have these characteristics. These rewards are primarily valued for the economic advantages they provide a customer with. More non-monetary rewards, such as customized communication or exclusive events, can be used inflexibly. It is already their immediate use that provides value. Rather than addressing instrumental needs and providing economic benefits, they provide more experiential or relation-oriented benefits.

A glimpse at the relevant academic literature shows that the prevailing approach has been to treat types of rewards as self-explanatory and to intuitively pick and compare presumably prototypical monetary and non-monetary rewards (Furinto *et al.*, 2009; Lacey & Sneath, 2006; Meyer-Waarden & Benavent, 2001; Roehm *et al.*, 2002). This simplified dichotomization is pragmatic and useful but lacks empirical verification and neglects non-prototypical forms of rewards that are found in some loyalty schemes (Meyer-Waarden, 2008). We will, hence, choose the rewards used in our studies based on a verified perception of their level of monetarism.

### **3. Reward monetarism and attractiveness**

Whether monetary or non-monetary rewards are more attractive and effective is a disputed issue. Some empirical evidence suggests an advantage of monetary rewards (Furinto *et al.*, 2009; Bojei *et al.*, 2013); especially when attracting new customers to a loyalty program (Leenheer *et al.*, 2007). Industry surveys also hint to the power of monetary rewards, such as special offers, discounts and point redemption (Bells, 2015).

There are, in fact, good arguments for a preference for the utilitarian advantages of monetary rewards (Chandon *et al.*, 2000). Monetarism signals flexibility and independence

(Vohs *et al.*, 2006). Moreover, monetary rewards are easy to understand and by being instrumental they offer the type of utility (Furinto *et al.*, 2009; Jin and Huang, 2014) people are often seeking in service settings (Blattberg and Neslin, 1993). Evidence from neuroscience bolsters the presumed power of monetary rewards. Compared to symbolic incentives, financial incentives appear to increase attention (Hübner and Schlösser, 2010; Strombach *et al.*, 2015) and to stimulate the dopamine centers (i.e., the reward centers) in the brain. Monetary cues, thus, potentially mimic addiction-like responses (Lea and Webley, 2006) and serve as a powerful motivator (Hammermann and Mohnen, 2014). Overall, we propose that (perceived) monetarism of a reward (bundle) predicts its perceived attractiveness.

A pilot study and five subsequent studies were designed to test for this general prediction and to assert its pervasiveness. We first explore the perceived monetarism of different loyalty rewards and establish its general relation to attractiveness. We then extend our inquiry to the more realistic setting of entire loyalty programs, i.e., bundles of rewards, and test for potential differences in preferences across different contexts and motivations. We do so in the spirit of providing a strong test for what emerges as a pervasive phenomenon. In order to establish generalizability and assess robustness of results, we focus on contexts and settings that could theoretically reduce the attractiveness afforded by monetarism.

#### **4. Pilot study: Monetarism of individual rewards**

The aim of the pilot study was two-fold. First, we wanted to explore perceived monetarism of different loyalty rewards and to identify suitable rewards for the subsequent studies. Second, we aimed at getting initial insights on whether reward monetarism is related to perceived attractiveness.

#### *4.1. Participants, study design, and procedure*

An invitation to participate in an online study was sent to a small group of postgraduate students at a large European University. Thirty-one postgraduate students (52 % females) followed the link and completed the survey.

Participants first read a short introduction including a definition of monetary and non-monetary loyalty rewards. This was followed by a list of 21 rewards, each explained by a brief example. Stimulus rewards were drawn based on the world's largest retailers list (Deloitte and Stores, 2010). This list was used to identify the main loyalty schemes operating in Europe. Screening the rewards offered by these schemes, it became apparent that there is considerable overlap in the rewards they offer while more local and smaller service providers tend to offer different rewards. Drawing additionally on loyalty schemes offered by service providers in different service sectors, we identified 21 distinct rewards (see Figure 1).

Participants were asked to rate each of these rewards along two dimensions; first in terms of the extent to which rewards were perceived as monetary and second in terms of how attractive each reward was perceived to be (5-point scales with 1 – purely non-monetary/ very unattractive and 5 – purely monetary/ very attractive). A final section asked for demographic characteristics.

#### *4.2. Results and discussion*

Results of the pilot study reveal that loyalty rewards differ with regard to their perceived monetarism (see Figure 1). The assessed relation between mean perceived monetarism and attractiveness showed the expected advantage of monetary rewards ( $r = .59$ ,  $p < .001$ , see Figure 1). The more monetary a reward was perceived to be, the more attractive it was deemed.



[Insert FIGURE 1 about here]

To conclude, the pilot study uses correlational evidence and shows that the more monetary a reward is perceived to be, the more attractive it is deemed. However, it is restricted to individual rewards. In reality customers are offered to join entire loyalty programs that consist of a bundle of rewards. It is, hence, essential to ensure that results generalize to the perception of complete programs.

## 5. Study 1: Monetarism of loyalty programs

Study 1 aimed at investigating the attractiveness of loyalty programs. To do so, it assessed attractiveness of monetary and non-monetary loyalty programs (i.e., bundles of multiple rewards) in a controlled experiment.

### 5.1. *Participants, study design and procedure*

In total, 132 students (61% females;  $M_{\text{age}} = 26.52$ ,  $SD = 7.86$ ) from a large European university were recruited via an internal mailing list reaching all students. In order to design loyalty programs that differ in monetarism, we drew on the generic rewards used in the pilot study (see Figure 1). Each program was illustrated by three rewards. Two focal rewards were either relatively monetary or non-monetary depending on the experimental condition. A third reward that was considered neither monetary nor non-monetary (*free birthday gift*) was added to both versions in order to enhance realism. The monetary [*non-monetary*] version of the loyalty program consisted of the following rewards:

- Increasing discount for all services with 10% initial discount  
*[Access to special member events]*
- Exclusive monthly promotional offers (e.g., discounts) for card holders  
*[Free subscription to a publication (e.g., magazine)]*
- Free birthday gift

The chosen rewards differed in terms of monetarism ( $t(30) = 17.43, p < .001$ ; average monetarism:  $M_{\text{monetaryLP}} = 4.19, SD = 0.68, M_{\text{non-monetaryLP}} = 2.20, SD = 0.58$ ) but were not the most extreme exemplars on the monetarism continuum. Each participant was randomly presented with either the monetary or the non-monetary loyalty program. After studying the rewards of each program, participants were asked to rate the program's monetarism, its attractiveness, and their likelihood to join on 7-point scales with 1 being purely non-monetary/ very unattractive/ not at all likely and 7 being purely monetary/ very attractive/ very likely. Subsequently, we assessed perceived program fit to different service sectors by asking how attractive such a loyalty program would be in the hospitality, food retail, and beauty industries (7-point scales with 1 – very unattractive and 7 – very attractive). A final questionnaire section assessed demographic characteristics before participants were thanked.

## 5.2. Results and discussion

Between-subjects analysis showed that the manipulation of program monetarism was successful. The monetary loyalty program was perceived as significantly ( $t(130) = 10.29, p < .001$ ) more monetary ( $M_{\text{monetaryLP}} = 5.00, SD = 1.22$ ), than the non-monetary loyalty program ( $M_{\text{non-monetaryLP}} = 2.80, SD = 1.24$ ).

Moreover, a t-test revealed the expected difference in perceived attractiveness ( $t(130) = 5.86, p < .001, \eta^2 = .21$ ) and likelihood to join ( $t(130) = 5.17, p < .001, \eta^2 = .17$ ) across the programs. The monetary loyalty program instigated higher levels of perceived attractiveness and likelihood to join (See Table 1).

[Insert TABLE 1 about here]

To sum up, Study 1 provides further support for our prediction. Using a controlled experimental design, the moderately more monetary loyalty program was found to be more attractive and to increase the intention to join. We find this effect even if we abstain from using the most prototypical monetary and non-monetary rewards and if we temper the monetarism of a program by mixing in a neutral reward.

Like the pilot study, Study 1 was a clean initial test of the perception of specific reward bundles that is unbiased by context. Any company offering such reward bundles does, however, provide its very own context. Prior research suggests that people perceive rewards differently depending on which industry offers them (Yi and Jeon, 2003; Furinto *et al.*, 2009). Monetary rewards may hold an advantage in contexts in which primarily functional and economic advantages are thought such as grocery shopping (Leenheer *et al.*, 2007). They may be less preferred in other industries such as beauty or hospitality where services are often thought for more experiential reasons (cf. Hirschman and Holbrook, 1982). When an industry is clearly experiential and the service is becoming very personal, it could be that monetary and, thus, instrumental aspects of a loyalty program are no longer as appreciated. Indeed, further exploratory analysis identified a diverging fit of both programs across different industries. While the monetary loyalty program fit significantly better to grocery retailing ( $t(130) = 80.47, p <$

.001;  $M_{\text{monetaryLP}} = 5.56$ ,  $SD = 1.37$ ;  $M_{\text{non-monetaryLP}} = 3.00$ ,  $SD = 1.87$ ), it did so only marginally to the beauty industry ( $t(130) = 3.2$ ,  $p = .075$ ;  $M_{\text{monetaryLP}} = 4.41$ ,  $SD = 1.92$ ;  $M_{\text{non-monetaryLP}} = 3.84$ ,  $SD = 1.71$ ). There was no difference in fit between programs in the hospitality industry ( $t(130) = 2.51$ , n.s.;  $M_{\text{monetaryLP}} = 4.10$ ,  $SD = 1.81$ ;  $M_{\text{non-monetaryLP}} = 3.61$ ,  $SD = 1.76$ ). If monetary loyalty program attractiveness is also a function of context, we should not observe a difference in the hospitality industry. If, however, monetary rewards are over-archingly appealing, we should see them preferred regardless of their fit.

## 6. Study 2: The appeal of monetarism even when both programs fit the context

Study 2 provides a further test for the observed superiority of monetary loyalty programs which is situated in the specific context of hospitality. Study 1 had indicated that this is a context to which both loyalty programs fit equally well. Consequently, there should be no difference in attractiveness unless—and this is what we suggest—monetary rewards are better able to lure consumers in to join a program. In a nutshell, Study 2 aims to replicate the superior appeal of a monetary loyalty program within a specific context in which consumers feel that both monetary and non-monetary programs fit. This allows us to rule out assumed contextual congruence as a potential explanation for the observed advantage of monetary rewards.

### 6.1. *Participants, study design and procedure*

Study 2 asked participants to immerse into a real-life scenario about an offer to join a loyalty program featuring the same reward bundles as Study 1. Overall, 139 participants (60% females, 75% indicated falling into the age bracket of 18 – 33 years) agreed to take part in an online experiment after being invited via a research mailing list. The sample consisted mainly of

students (73%). Upon following the link to the online experiment, participants were confronted with a scenario depicting a slice of life of a student:

You are a busy student living 20 minutes away from the university. The area you live in is pretty popular among your peers. It is famous for being the best place in town for an active social life and amusements. Around the corner there is a nice local café that has good food, friendly service, and a fun atmosphere. It is one of several places that you regularly go to. You have just entered the local café. The waiter kindly greets you, offers you to choose a table and asks if you would like to join a newly launched loyalty program. Loyal customers who participate in this loyalty scheme get the following rewards.

After being introduced to this situation, participants were randomly presented with one of the programs used in Study 1. To enhance realism, the description of rewards was adapted to the context, e.g., *“Increasing discount for food and drinks with 10% initial discount”*.

After participants had immersed themselves in the scenario, they were asked to rate the program’s attractiveness and their likelihood to join it on 7-point scales as in Study 1. A final questionnaire section assessed demographic characteristics before participants were thanked.

## 6.2. Results and discussion

Separate t-tests again revealed a significant difference in attractiveness ( $t(137) = 3.12, p < .01, \eta^2 = .07$ ) and joining intentions ( $t(137) = 2.33, p < .05, \eta^2 = .04$ ) between the programs. The monetary loyalty program was perceived to be more attractive and was more likely to be joined (see Table 2). While the effect was less pronounced than in Study 1 (for an overview of effect sizes across studies see Table 4), the pattern was replicated. In keeping with our predictions and despite both programs fitting to the context equally well, Study 2 provides further support for the advantage of monetarism in attracting customers to a loyalty program.

[Insert TABLE 2 about here]

## **7. Study 3: Ruling out the role of actual worth**

To ensure that the observed appeal of monetary rewards is due to their monetary nature, it is essential to ensure that results are not due to a possible systematic confound: the absolute worth of rewards. Studies 1 and 2 held no information about the actual monetary worth of rewards. It is possible that participants were evaluating rewards based on their assumed total worth rather than their nature. In other words, participants might not have asked themselves “how much do I like those rewards” but rather “how much do I get” or “how much am I worth to the service provider”. In the absence of information about the precise worth of rewards, participants might have assumed that the non-monetary reward package has a lower market value than the monetary reward package (cf. Zeithaml, 1988). We thus cannot rule out that the monetary reward bundle was perceived as the better deal and a bigger investment on the part of the service provider. To address this potential confound, Study 3 manipulated the presence of information about the actual worth of rewards and kept worth constant across program types.

In addition, Study 3 aimed to stretch the scope of enquiry to an additional context: the beauty industry. The beauty industry differs from the hospitality industry in a number of essential respects such as visit frequency and whether the service is physically performed on the person. Extending our enquiry to this context, thus, boosts the potential generalizability of results.

### *7.1. Participants, procedure, and design*

Study 3 and all upcoming studies used power analyses (GPower 3.1.9.2; with  $\alpha = .05$ , power = .80) to determine minimum sample sizes based on Study 2 ( $\eta^2 = .07$ ). For the 2 (monetary versus non-monetary program) x 2 (information on monetary worth present versus absent) experimental design a minimum sample size of  $n = 107$  was established. More student participants than required ( $n = 203$ ; 60% females;  $M_{\text{age}} = 23.26$ ,  $SD = 10.37$ ; same subject pool as in Study 1) volunteered to participate in an online experiment.

Upon following the link, participants were randomly assigned to one of four scenarios. Participants were asked to immerse into the situation of visiting a local beauty and hairdresser salon. The monetary and non-monetary loyalty programs described mimicked the ones used in Study 2. Information about the worth of rewards was manipulated by explicitly adding information on the monetary value of each reward offered. For example, the non-monetary loyalty reward “*Access to special member events (e.g., exclusive seasonal haircut presentation event with a reception party held twice per year)*”, was presented with an explicit monetary value: “*worth 30€*”. The overall value of rewards provided was kept constant across monetary and non-monetary loyalty programs. Program attractiveness was assessed as in Studies 1 and 2.

## 7.2. Results and discussion

A two-way ANOVA with loyalty program monetarism and presence of information as between subject factors revealed a significant main effect of monetarism ( $F(1, 199) = 4.00$ ,  $p < .05$ ,  $\eta^2 = .02$ ). Monetary rewards were again perceived as more attractive than non-monetary rewards (see Table 3). Importantly, neither a main effect of information about reward worth nor an interaction effect (all  $F$ 's  $< 1$ ) emerged.

[Insert TABLE 3 about here]

This shows that it is in fact the inherent nature of monetary rewards rather than their perceived worth that appeals to consumers. Even if non-monetary rewards were shown to be economically valuable, their appeal did not increase. Study 3 thus provides further support for the power of monetary rewards in a different context and it allows ruling out a major potential confound. Monetary rewards are considered more attractive because they are monetary, not because they are worth more overall.

## **8. The role of individual consumption goals**

Three sequential studies consistently documented the advantage of monetary loyalty programs in attracting non-members. Though we had predicted this preference, it is at odds with practitioners' claims and observations that non-monetary rewards can be as effective (Johnson, 1999; White, 2003). Evidence from organizational psychology even suggests that there could be situations in which non-monetary rewards are more effective (Appelbaum and Kamal, 2000). It could, thus, be that there are boundary conditions to the observed attractiveness premium of monetary rewards. Here, we focus on a theoretically particularly plausible boundary condition: the type of consumption goal a consumer pursues.

Even the same act of consumption can serve to satisfy different needs and goals. Consumption goals are the specific outcomes a consumer aims to achieve through consumption (Huffman *et al.*, 2003; Chitturi *et al.*, 2008). These goals have often been divided into utilitarian and hedonic goals (Babin *et al.*, 1994). Utilitarian goals are instrumental and functional. Consumption serves as a means of obtaining an ultimate gain (Chandon *et al.*, 2000). In contrast, when hedonic goals are active, consumers strive for consumption in and of itself. Hedonic goals



are related to entertainment, fun, experiential, and emotional meaning (Babin *et al.*, 1994; Chitturi *et al.*, 2008). Notably, consumption value arises through the attainment of consumption goals (Holbrook, 1994). An offering provides value to the extent to which it satisfies active goals. If, for example, an attribute of an object (Chandon, Wansink and Laurent 2000) or a type of appeal (Chandon *et al.*, 2000; Büttner *et al.*, 2014) is compatible with an active consumption goal, satisfaction is enhanced. More than that, attributes that match active goals are sought in the decision making process. The power of goal congruence has been shown in many contexts, including the context of sales promotions (Büttner *et al.*, 2015).

It stands to reason that consumption goals would also have an effect on the perceived attractiveness of loyalty programs. Considering that the different reward types are assumed to cater to different needs, the goals consumers pursue through consumption may influence what rewards they are attracted to (Chandon *et al.*, 2000; O'Loughlin and Szmigin, 2006). Since monetary rewards provide instrumental, economic—and, thus, more utilitarian—benefits, they may be particularly preferred by consumers who are pursuing utilitarian consumption goals. Since non-monetary rewards provide experiential, relationship-oriented—and, thus, more hedonic—benefits, they may be particularly preferred by consumers in pursuit of hedonic consumption goals.

Although the literature makes clear predictions on the moderating role of consumption goals, it has to be seen whether results obtained in the context of promotions generalize to the specific context of loyalty programs. There is in particular one essential difference between sales promotions and loyalty programs. Whereas sales promotions are mostly tied to a specific consumable and immediate consumption, loyalty program membership stretches beyond specific moments and purchases and pays into long-term company objectives (Kumar and Shah, 2004).

Like sales promotions and thus in contrast to loyalty programs, consumption goals are tied to a specific act of consumption (Huffman *et al.*, 2003). Given the different time perspectives and scopes, it may well be that consumption goals have little influence on the appeal of specific loyalty programs. To test whether the current consumption setting can nonetheless break through the observed attractiveness premium of monetary loyalty programs, Studies 4a and 4b strengthened the power of context by manipulating consumption goals.

[Insert TABLE 4 about here]

## **9. Study 4a: Manipulating consumption goals in a beauty context**

Primarily, Study 4a aimed to test whether the salience of different consumption goals moderates the effect of monetarism. Moreover, it aimed to rule out further potential confounds. So far, we cannot rule out that consumers dislike non-monetary programs because they simply perceive them as too novel (cf. Kumar and Shah, 2004). Study 4a tackles this potential issue and it accounts for potential differences in situational involvement.

### *9.1. Participants, procedure and design*

One-hundred and eighteen undergraduate and postgraduate participants (62% females;  $M_{\text{age}} = 25.84$ ,  $SD = 6.11$ ) from a large European university were recruited using the same procedure and a similar scenario as in Study 3. The study participants were presented with one of two scenarios manipulating consumption goals before being presented with a more or less monetary loyalty program. Overall, this yielded a 2 (monetary versus non-monetary program) x 2 (utilitarian versus hedonic consumption goal) between-subjects design. Similar to Büttner *et al.* (2015) *utilitarian* [*hedonic*] consumption goals were manipulated in the following way:

It is a Saturday afternoon. All morning you have been working to meet a deadline on an internship related project. Because of the heat outside, the room got very warm throughout the morning, making you feel tired and hot. What you would need now is something that cools you down.

*Maybe you could shorten your hair a bit? A somewhat shorter haircut will be at least one step in dealing with the summer heat. Moreover, it has been a while since you last shortened your hair and a cut will make sure that it stays healthy. Thus, you decide to go to your local hairdresser salon. You have been there before and know that they have reasonable prices and will do a good job.*

*[You feel you deserve a relaxing treat. You decide to go to your local hairdresser salon. From the previous visits you know that before the haircut they give you a 15 min head and shoulder massage. This, together with the stimulating atmosphere they have, could give you a little bit of “Spa” which is what you currently need. Moreover, for the last couple of days you have been thinking about having a trendy haircut you saw in your favorite magazine].*

After participants had immersed into the scenario, they were asked about which consumption goals were active by describing their visit to the hairdresser along ten semantic differential scale items (Voss *et al.*, 2003), measuring utilitarian (effective/ ineffective, helpful/ unhelpful, functional/ not functional, necessary/ unnecessary, practical/ impractical;  $\alpha = .82$ ) and hedonic (enjoyable/ unenjoyable, dull/ exciting, not delightful/ delightful, not thrilling/ thrilling;  $\alpha = .76$ ) dimensions of this visit on 7-point scales.

After the manipulation check, monetarism of loyalty programs was manipulated in the same way as in Study 3 followed by items asking for attractiveness and intention to join assessed as in prior studies. Going beyond the previous studies, we also controlled for involvement which

was measured with Houston and Walker (1996) six-item (unimportant/ important, of no concern/ of concern to me, irrelevant/ relevant, means nothing to me/ means a lot to me, doesn't matter/ matters to me, insignificant/ significant to me;  $\alpha = .83$ ) adaptation of the Personal Involvement Inventory scale (Zaichkowsky, 1985). To control for a potential novelty bias, an item assessing the uniqueness of the program (7-point scale, with 1 – not at all and 7 – very much) was added. A final section assessed demographic characteristics before participants were thanked.

### 9.2. *Manipulation check and prior analyses*

A multivariate analysis of variance suggests that consumption goals were successfully manipulated,  $F(1, 115) = 21.06, p < .001, \eta^2 = .27$ . Participants in the utilitarian consumption goal condition scored higher on the utilitarian dimension ( $M_{\text{utilitarian}} = 4.09, SD = 1.44$ ) than participants in the hedonic condition ( $M_{\text{hedonic}} = 2.91, SD = 1.15$ ). Hedonism scores showed the opposite pattern ( $M_{\text{utilitarian}} = 2.62, SD = 0.99, M_{\text{hedonic}} = 3.21, SD = 0.94$ ).

Further analysis showed that utilitarian ( $M_{\text{utilitarian}} = 3.78, SD = 1.19$ ) and hedonic ( $M_{\text{hedonic}} = 3.47, SD = 1.12$ ) scenarios instigated similar levels of involvement with the situation,  $t(116) = 1.44, n.s.$  This allows us ruling out that potential effects found would be due to differences in involvement across conditions.

### 9.3. *Results and discussion*

A two-way ANOVA was run to investigate whether perceived loyalty program attractiveness depends on the interaction of salience of consumption goals and monetarism of the loyalty program. The test revealed a significant main effect of monetarism ( $F(1, 114) = 4.28, p < .05, \eta^2 = .04$ ) with monetary rewards being perceived as more attractive across conditions (see

Table 5). No main effects of or interaction effects with consumption goals emerged (all  $F$ 's  $< 1$ ). In fact, a glance at Table 4 reveals that the effect sizes are similar across consumption goals.

[Insert TABLE 5 about here]

A two-way ANOVA on intention to join the loyalty program revealed the same pattern of results. There was only a main effect of monetarism ( $F(1, 114) = 4.14, p < .05, \eta^2 = .04$ ) with monetary rewards increasing the intention to join the loyalty program compared to non-monetary rewards (see Table 5). Neither the main effect of consumption goals nor the interaction effect reached significance (all  $F$ 's  $< 1.5$ ) even though the size of the effect was small in the hedonic condition whereas it was medium in the utilitarian condition (see Table 4).

While the pattern of results emerged as remarkably robust across studies and contexts, it could be that the underlying reason is not as stipulated. Results could simply be due to some sort of novelty bias. For example, it is possible that subscription to publication as a reward could be uncommon, novel, and dubious. In response, the unknown might be evaluated less favorably. In order to control for such a bias we added perceived uniqueness of the program as a covariate. While it was significant (attractiveness:  $F(1, 113) = 44.86, p < .001, \eta^2 = .28$ ; joining intention:  $F(1, 113) = 39.35, p < .001, \eta^2 = .26$ ), the previously observed pattern remained constant: only the main effect of monetarism was significant (attractiveness:  $F(1, 113) = 8.73, p < .01, \eta^2 = .07$ ; joining intention:  $F_{\text{monetarism}}(1, 113) = 8.06, p < .01, \eta^2 = .07$ ). Similarly, adding situational involvement as a covariate (attractiveness:  $F(1, 113) = 4.9, p < .05, \eta^2 = .04$ ; joining intention:  $F(1, 113) = 6.58, p < .05, \eta^2 = .06$ ), did not alter the monetarism main effect (attractiveness:  $F(1, 113) = 4.42, p < .05, \eta^2 = .04$ ; joining intention:  $F_{\text{monetarism}}(1, 113) = 4.34, p < .05, \eta^2 = .04$ ).

Contrary to what theory would predict and likely due to the long-term nature of loyalty program membership, results of Study 4a suggest that monetarism of a program, rather than its congruence with active consumption goals, affects the perceived attractiveness of a loyalty program and likelihood to join it. Monetary rewards are consistently preferred to non-monetary rewards regardless of which consumption goals are active and this preference does not seem to be a function of differences in perceived novelty across reward programs.

## **10. Study 4b: Manipulating consumption goals in a hospitality context**

Study 4a successfully manipulated consumption goals but did not manage to elicit high levels of hedonism. It could be that high levels of goal hedonism are needed for a fit to non-monetary loyalty programs. Study 4b, hence, made a special effort in manipulating hedonic consumption goals. It also generalized insights on consumption goals to a second context, that of hospitality.

### *10.1. Participants, procedure and design*

Drawing on the same subject pool (but different respondents) as the prior studies, 144 students from a large university in Europe (57% females; 95% of the sample was between 18 – 33 years old) followed the link and completed the study. Consumption goals (utilitarian versus hedonic) and nature of loyalty program (monetary versus non-monetary) were manipulated in a 2 x 2 between-subjects design. Scenarios were based on Study 2 and adjusted to manipulate consumption goals as in Study 4a. To illustrate, the scenario aiming at manipulating *utilitarian* [*hedonic*] consumption goals read as follows:

It is a Saturday morning. You feel pretty tired. Last night you had been working to meet the deadline on a work project till 3 o'clock in the morning. What you definitely need now is *a*

*decent filling breakfast and a glass of freshly squeezed orange juice [is to have some fun and relax, anything that distracts you from working]. You decide that your local café would be the best place to get that. You know that they serve excellent breakfast for a reasonable price at weekends. It is perfect for sating your hunger. [You know that they will play stimulating music and they even have a Wii console that you are a fan of. It is perfect for having a bit of fun.]*

Monetarism of loyalty programs was manipulated in the same way as in the prior studies. The same consumption goal manipulation check as in Study 4a was employed. After participants were immersed in the scenario, loyalty program attractiveness, likelihood to join it as well as perceived program uniqueness were assessed as in Study 4a.

### 10.2. Manipulation check

A multivariate analysis of variance confirmed that the scenarios were successful at manipulating utilitarian and hedonic consumption goals respectively ( $F(2, 141) = 23.94, p < .001, \eta^2 = .25$ ). Participants in the utilitarian consumption goal condition scored higher on the utilitarian dimension ( $M_{\text{utilitarian}} = 5.50, SD = .97$ ) than participants in the hedonic condition ( $M_{\text{hedonic}} = 4.62, SD = 1.11$ ). Hedonism scores showed the opposite pattern ( $M_{\text{utilitarian}} = 4.70, SD = .93; M_{\text{hedonic}} = 5.15, SD = .78$ ) and were, as intended, overall higher than in Study 4a.

### 10.3. Results and discussion

A two-way ANOVA was run to investigate whether perceived loyalty program attractiveness depends on the salience of consumption goals and monetarism of the loyalty program. As in the previous studies the test revealed a significant main effect of monetarism ( $F(1, 140) = 13.84, p < .001, \eta^2 = .09$ ) with monetary rewards being perceived as more attractive

across conditions (see Table 6). No main effects of consumption goals and no interaction effects emerged (all  $F$ 's < 1). In fact the effect sizes (see Table 4) were medium to large across consumption goals. The same pattern emerged when likelihood to join the loyalty program was used as a dependent variable. Only the main effect of monetarism ( $F(1, 140) = 13.50, p < .001, \eta^2 = .09$ ) was significant with no other significant effects observed (all  $F$ 's < 1.1). However, as in Study 4a the effect size was somewhat smaller when the hedonic (Cohen's  $d = 0.47 / \eta^2 = .05$ ) rather than the utilitarian (Cohen's  $d = 0.75 / \eta^2 = .13$ ) consumption goal was active. After controlling for perceived uniqueness, the effect sizes of monetarism on attractiveness ( $F(1, 139) = 30.80, p < .001, \eta^2 = .18$ ) and likelihood to join the program ( $F(1, 139) = 32.34, p < .001, \eta^2 = .19$ ) even increased. Again, results support the power of monetary reward programs.

[Insert TABLE 6 about here]

Taken together, Study 4b corroborates the findings of Study 4a and extends them to the context of the hospitality industry and a setting in which consumption goals were overall more hedonic. If at all, the effect sizes were even larger than in the beauty context (see Table 4). The preference for a monetary loyalty program holds regardless of the type of consumption goal active. Monetarism seems to be a major driver of the appeal of a loyalty program regardless of what motivates customers to seek a service in the first place.

## 11. General discussion

Loyalty programs can be a key to customer satisfaction, relationship management, and thus, sustainable financial success (Kumar and Shah, 2004; Berman, 2006). In order to be at all



able to turn this key, a loyalty program needs to be attractive to prospective members. Across 6 studies with a total sample of more than 700 participants, using correlational (Pilot study) and causal evidence (Study 1, 2, 3, 4a, 4b) we show that reward monetarism robustly contributes to loyalty program attractiveness among non-members. The power of monetary loyalty rewards holds regardless of whether or not a specific context is present (Study 1 vs. Study 2, 3, 4a, 4b) or precise monetary worth of rewards is known (Study 3). The advantage of program monetarism is found to be robust across two different types of industries offering the program (Study 2, 4b vs. 3, 4a) and diverging consumption goals (Study 4a and 4b).

Together these insights yield several important contributions to the literature. First, we show that monetarism is a very powerful and pervasive lens that helps judging effectiveness of loyalty programs. Second, by focusing on current non-members we shed light on strategic factors that can be used to attract new customers to a loyalty program. To date most studies focused on the appeal of loyalty programs from the perspective of existing program members (e.g. Leenheer *et al.*, 2007; Suh and Yi, 2012; Eggert *et al.*, 2015; Keh and Lee, 2006). While clearly important, this perspective may not be the most relevant one to begin with. The trends of increasing competition for members on the one hand and consumer skepticism about loyalty schemes on the other hand (Colloquy, 2014; WorldPay, 2013), suggest that boosting the size of the member base is a priority in customer relationship management. In particular in an age in which loyalty programs provide valuable keys to customer data and preferences, convincing consumers to join the data base is essential. The results of our study suggest that non-members are particularly attracted to monetary rewards and that this is a very robust finding. This is in line with industry data (Bells, 2015).

Notably, we observe this overriding appeal of more monetary rewards even though we opted for a strict test wherever possible. First, showing that reward monetarism stretches across an entire continuum (Pilot study), we deliberately refrained from using the most popular and common rewards as experimental stimuli in the subsequent studies. This is contrary to the prevailing practice of comparing extreme and stereotypical rewards (e.g. Furinto *et al.*, 2009; Roehm *et al.*, 2002; Meyer-Waarden and Benavent, 2001) that often lacks empirical verification and neglects less popular rewards. Second, we forewent demand prone service contexts (e.g. grocery retailing which fits monetary programs particularly well) and opted for between-subjects designs which do not allow participants to compare different programs. Despite these constrictions the attractiveness of monetary loyalty programs among non-members remained robust and consistent.

The current research demonstrates a persistent advantage of monetary programs but a closer look at the data also reveals that the size of this advantage may vary across contexts. Table 4 suggests that the hospitality industry may see stronger effects than the beauty industry. The potential reasons for such a pattern are manifold. We were able to ascertain that differences in hedonism are unlikely to play a role. A comparison of hedonism scores between Studies 4a and 4b suggests that the specific context of a café was perceived as more hedonic. If at all, the effect should, hence, be less pronounced. Moreover, an explicit manipulation of hedonic consumption goals had no effect on attractiveness. It is also unlikely that it is purely a matter of the perceived fit between a context and the type of program offered. The hospitality context was attested the relatively best fit with a non-monetary program and yet participants penalized a non-monetary program somewhat more in this context than in the beauty context. It is, thus, likely that another difference across contexts was at play. One avenue to explore for further research is the

frequency with which one visits a café versus a hair dresser. Monetary rewards tend to be offered on a more regular basis than non-monetary rewards. Their attractiveness could hence experience a further boost in contexts of more frequent patronage.

This research also contributes to the literature on consumption goals. Prior evidence (Büttner *et al.*, 2015; Chandon *et al.*, 2000) suggests that rewards in the context of sales promotions may be appealing to the extent to which they match with active consumption goals. The instrumentally oriented monetary rewards would be a natural fit for utilitarian consumption goals whereas experientially and relationship-oriented non-monetary rewards would be a natural fit for hedonic consumption goals (Chandon *et al.*, 2000). Given conceptual similarities between sales promotion and loyalty rewards, we tested this potential boundary in Studies 4a and 4b and aimed to see whether the effect of reward-goal congruency generalizes to the context of loyalty programs. Both studies failed to support the ensuing prediction of a preference reversal in case of hedonic consumption goals.

The reason why consumption goals might be of importance for promotion but not loyalty programs, we believe, lays in their strategic differences. The rewards entailed in a sales promotion are tied to a particular act of consumption. Being a tool for primarily short-term sales objectives, they also intend to yield an immediate behavioral responses (Rothschild and Gaidis, 1981). Thus, sales promotions are inherently linked to specific consumption situations that could warrant and enhance the fulfilment of an active consumption goal (e.g. the goal to indulge might be enhanced upon „buy 1 and get 1 free“ chocolate bar promotion). Loyalty programs, on the other hand, are less clearly tied to specific consumables. They intend to foster long-term behavioral commitment rather than fulfilment of goals through immediate behavioral responses. Although rewards can be redeemed during specific acts of consumption (for example 10% off

the bill at a restaurant), they are tied to the membership rather than the single act. Moreover, they can often be applied repeatedly across diverse consumption situations (quick lunch vs. dinner with your partner). These fundamental differences could explain why momentary consumption goals did not influence the appeal of specific loyalty programs.

### *11.1. Open questions and directions for future research*

The most intriguing open question relates to the underlying process of this pervasive preference. The current set of studies managed to preclude several plausible alternatives. We know that the preference emerges independently from salient consumption goals (Studies 4a and 4b) and involvement with the service experience (Study 4a). We also know that the preference is not a remnant of differences in perceived uniqueness of rewards (Studies 4a and 4b) although this does affect attractiveness, and we know that it is not a simple matter of assuming that monetary rewards are worth more (Study 3). We, thus, are confident that we can preclude that we are seeing an effect of customers' need for distributive equity or gratification for one's input (Lacey and Sneath, 2006).

But what exactly is driving this preference? It seems that the exact context in which a loyalty program is being offered contributes little to its perceived attractiveness. The utility associated with program membership, i.e. the rewards, appears to be dominant. Deciding on joining a loyalty program is perhaps not so much an add-on decision to a current consumption episode, but a decision in itself. It might be that a tangible monetary counter value is necessary to enter a somewhat formalized relationship with a service provider. At this point we can only speculate and our speculations include the possibility that the prevailing practice of offering monetary rewards has primed customers to look out for them when contemplating to join a new

loyalty scheme. Other promising explanations include the increased redemption and usage flexibility and the instrumentality that monetary incentives tend to offer (Lea and Webley, 2006; Duclos *et al.*, 2013; Vohs *et al.*, 2006).

We need to stress that the findings at hand may only hold for the particular remit of this article, namely, attraction toward a new loyalty program. Our findings hold no indication as to whether perceived attractiveness remains unchanged after customers have joined a loyalty program and they give no indication as to the effects on attitudinal and behavioral loyalty.

Some existing evidence suggests that the preference for specific rewards might potentially reverse when rewards are evaluated after loyalty card acquisition (cf. Suh and Yi, 2012). Findings may also fail to generalize to hierarchical loyalty programs, where preferential treatment, thus mostly non-monetary rewards, is of greater prominence (Eggert *et al.*, 2015). Finally, it is possible that results are different, if customers encounter a loyalty program through the social setting of referrals (Jin and Huang, 2014). Future research is needed to identify whether the way in which rewards are presented affects preference for them.

Future research may also benefit from establishing generalizability across cultures. Some literature suggests that culture might not always shape the reactions to marketing communication activities (Kwok and Uncles, 2005) but it could, for example, be that more collectivist mindsets increase the appeal of non-monetary rewards (cf. Burton, 2000; Hui *et al.*, 2011).

## *11. 2. Practical implications*

Although there are many directions for future research, the evidence at hand does deliver a very robust picture. The current paper provides a potential answer to the question of how to attract new loyalty program members: offer monetary rewards and stress them when trying to

attract new members. The power of monetary loyalty programs holds also in industries to which non-monetary programs would fit well (hospitality and beauty industries). Therefore, we assume that results generalize across industries. Customers seem to be genuinely attracted by the monetarism of rewards rather than their actual worth. It is, hence, likely pointless to make non-monetary rewards seem more monetary by advertising their market value (see Study 3).

Notably, results indicate that the attractiveness of rewards is unaffected by consumers' consumption goals. It is therefore likely wasted effort to try and nudge consumers to adopt more hedonic (e.g. emphasizing experiential aspects of dining at a restaurant) or utilitarian (e.g. emphasizing value aspect of dining at a restaurant) mindsets before asking them to subscribe to a loyalty program.

The strong support found for monetary rewards does not mean that variations in the type of rewards offered are futile. The inclusion of non-monetary rewards can help to stand out from rival loyalty programs or build consistency with the overall company image (Kumar and Shah, 2004; Meyer-Waarden and Benavent, 2001). In addition, non-monetary rewards may be at least as effective in generating actual loyalty among existing program members. Presumably it is at this second step—actual membership—that the often suggested issue of congruency between the service and the rewards offered comes into play.

In a nutshell, when considering joining a loyalty program, customers are not looking to indulge but lured by money or anything close to it. What they are looking for once they have joined may well be a different matter.

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## Tables

**Table 1**  
Study 1: Perceived attractiveness of loyalty programs

	Monetary program		Non-monetary program	
	M	SD	M	SD
Attractiveness of program	4.44	1.42	2.94	1.53
Likelihood to join	4.37	1.64	2.88	1.68

Notes: means are based on 7-point scales; 1 = low attractiveness/ likelihood to join, 7 = high attractiveness/likelihood to join; n = 132

**Table 2**

Study 2: Perceived attractiveness of loyalty programs in a context fitting both programs

	Monetary program		Non-monetary program	
	M	SD	M	SD
Attractiveness of program	5.89	1.35	5.09	1.70
Likelihood to join	6.00	1.42	5.36	1.82

Notes: means are based on 7-point scales; 1 = low attractiveness/ likelihood, 7 = high attractiveness/ likelihood; n = 139

**Table 3**

Study 3: Perceived attractiveness of loyalty programs when controlling for actual worth

	Monetary rewards				Non-monetary rewards			
	Worth absent		Worth present		Worth absent		Worth present	
	M	SD	M	SD	M	SD	M	SD
Attractiveness of program	4.85	1.59	4.76	1.68	4.35	1.64	4.35	1.56

Notes: means are based on a 7-point scale; 1 = low attractiveness, 7 = high attractiveness; n = 203

**Table 4**  
Effect sizes across studies and conditions

Context	Study	Cohen's d	$\eta^2$	n
Attractiveness of a program				
none specified	Study 1	1.02	.21	132
Hospitality-Café	Study 2	.52	.07	139
Beauty-Hair Dresser	Study 3	.31	.02	95
Beauty-Hair Dresser: Worth held constant	Study 3	.25	.02	108
Beauty-Hair Dresser: Utilitarian Consumption Goal	Study 4a	.40	.04	49
Beauty-Hair Dresser: Hedonic Consumption Goal	Study 4a	.41	.04	69
Hospitality-Café: Utilitarian Consumption Goal	Study 4b	.63	.09	71
Hospitality-Café: Hedonic Consumption Goal	Study 4b	.62	.09	73
Likelihood to join a program				
none specified	Study 1	.90	.17	132
Hospitality-Café	Study 2	.39	.04	139
Beauty-Hair Dresser: Utilitarian Consumption Goal	Study 4a	.56	.07	49
Beauty-Hair Dresser: Hedonic Consumption Goal	Study 4a	.26	.02	69
Hospitality-Café: Utilitarian Consumption Goal	Study 4b	.75	.13	71
Hospitality-Café: Hedonic Consumption Goal	Study 4b	.47	.05	73

**Table 5**

Study 4a: Perceived attractiveness of loyalty programs in a beauty context and the role of consumption goals

	Utilitarian goal				Hedonic goal			
	Monetary		Non-monetary		Monetary		Non-monetary	
	M	SD	M	SD	M	SD	M	SD
Attractiveness of program	5.19	1.37	4.54	1.88	5.22	1.16	4.57	1.90
Likelihood to join	5.62	1.02	4.68	2.16	5.15	1.63	4.69	1.96
Perceived novelty	3.90	1.48	4.00	1.72	3.78	1.55	4.21	1.76
Involvement	3.74	1.08	3.82	1.30	3.53	1.33	3.45	.99

Notes: means are based on 7-point scales; 1 = low attractiveness/ likelihood/ novelty/ involvement, 7 = high attractiveness/ likelihood/ novelty/ involvement; n=118

**Table 6**

Study 4b: Perceived attractiveness of loyalty programs in a hospitality context and the role of consumption goals

	Utilitarian goal				Hedonic goal			
	Monetary		Non-monetary		Monetary		Non-monetary	
	M	SD	M	SD	M	SD	M	SD
Attractiveness of program	5.49	1.30	4.53	1.74	5.31	1.38	4.34	1.71
Likelihood to join	5.46	1.21	4.31	1.79	5.47	1.22	4.80	1.60
Perceived novelty	3.87	1.69	4.80	1.69	4.41	1.52	4.76	1.71

Notes: means are based on 7-point scales; 1 = low attractiveness/ likelihood/ novelty, 7 = high attractiveness/ likelihood/ novelty; n=144